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Enterprise-Wide User Access Control (08/05/05)	Legal Office	1.1 Legal Office should update the Delegation of Authority to reflect the current organizational and reporting structure.	CONCUR. The Legal Office is in the process of reviewing and updating all delegations of authority. Legal staff will update the delegations to the General Counsel and the Information Security Office to reflect the current organizational and reporting structure.
	Information Security Office	1.2 Information Security Office should coordinate revision of security practices to ensure complete compliance with State policies.	CONCUR. The Information Security Office and the Information Security Committee will update the Data Owners and Custodian Practice to specify data owners are responsible for specifying and monitoring the integrity and security of information assets and the use of those assets within their areas of program responsibilities.
	Security Administration and Information Security Office	2. Security Administration should work with Information Security Office to determine the appropriate data owner for approval of access requests to system and information assets, and modify current user access request processes to ensure that owners of systems and information assets are provided opportunities to authorize access requests.	CONCUR. Security Administration and Information Security Office will continue to work together to determine that the appropriate data owners are included in the access approval process.
	Information Security Office	3. Information Security Office should issue a memo to administrators responsible for maintaining user accounts, stating user identifications may not be shared unless approved by the data owner and Information Security Office, and request the administrators to seek variance approval.	CONCUR. The Information Security Office will issue a memo to all CalPERS staff, including administrators.
		4. Information Security Office should issue a memo to all administrators informing them of current password requirements. The memo should request the administrators to notify the Information Security Office and seek variance approval if the system does not have the capability to enforce CalPERS password standards.	CONCUR. The Information Security Office will prepare a memo and send to all system administrators.

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Enterprise-Wide User Access Control (08/05/05) *(continued)*	Innovation Services	5. Innovation Services Division should look into the feasibility of maintaining a central repository of user identifications and their system accesses to prevent, and monitor for, inappropriate system access assignments.	CONCUR. Innovation Services recognizes the value of a central repository of user identifications. Several options are under consideration at the enterprise level that will be implemented as global security services that include centralized identity, account, and access management.
	Security Administration	6.1 Security Administration should coordinate with the business owners to establish a more systematic approach for effective monitoring of user account activity. Also, persons who set up access on systems should not have the responsibility of monitoring access on the same systems.	CONCUR. Security Administration will research and develop a proposal to expand monitoring to all business systems, with a focus on critical systems. Security Administration will also take the steps necessary to eliminate system account fulfillment duties where staff has account monitoring responsibilities.
		6.2 Security Administration should notify the system administrators to delete accounts of former CalPERS employees. Of the forty eight employees who left CalPERS between November 2004 and January 2005, four still had active accounts as of March 2005 in various systems.	CONCUR. Security Administration will research and implement revocation procedures for the four accounts noted in the observation. Security Administration has recently implemented procedures that enable it to revoke accounts when managers or authorized requestors do not properly perform that duty.
	Information Security Office	6.3 Information Security Office should revise the security practice to specify the data owner notification requirement.	CONCUR. The Information Security Office will update the Information Security Incidents Practice to include the data owner notification requirement.
		6.4 Information Security Office should seek direction from executive management to ensure CalPERS' compliance with State policies or assume the risk of non-compliance.	CONCUR. The Information Security Office will consult with executive management concerning the existing practice of not reporting information security incidents to the Department of Finance. The Information Security Office will modify its practice if necessary to accommodate executive management's wishes.

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Review of Contracting and Purchasing Activities (08/11/05)	Operations Support Services	1.1 Contracting procedures could be enhanced to address the number of bids required for formal solicitations and the alternative procedures that should be followed when fewer than three bids are received.	CONCUR. Operations Support Services will implement additional processes and procedures where needed. Additionally, Operations Support Services will revise the CalPERS Administrative Manual wherever necessary policy changes are required.
		1.2 Service order policies and procedures do not require staff to obtain bids, describe work to be performed, or break out of costs if more than one fiscal year is involved. These procedures do not provide the buyer with sufficient criteria and direction to ensure compliance and control to mitigate any misuse of service orders.	CONCUR. Operations Support Services will implement additional processes and procedures where needed. Additionally, Operations Support Services will revise the CalPERS Administrative Manual wherever necessary policy changes are required.
		1.3 Receiving, buying decisions, vendor maintenance, and change orders are not sufficiently addressed within the policies and procedures for purchasing.	CONCUR. Operations Support Services will implement additional processes and procedures where needed. Additionally, Operations Support Services will revise the CalPERS Administrative Manual wherever necessary policy changes are required.
		1.4 Operations Support Services should improve its retention procedures and maintain all pertinent documentation used to select and award contracts.	CONCUR. Contract Management Section will implement additional procedures needed to ensure required selection and award documentation is retained in the contract file.
		1.5 Operations Support Services did not consistently maintain complete certifications and supporting documentation. Specifically, six of the 39 files reviewed did not include the required payee data record and California Business Certification Information.	CONCUR. Contract Management Section will implement additional procedures needed to ensure required certifications and supporting documentation is retained in the contract file.

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Review of Contracting and Purchasing Activities (08/11/05) *(continued)*	Operations Support Services	1.6 Operations Support Services should ensure that contracts and amendments are approved prior to the effective date. In instances where this does not occur, it should, within their contract database, record, track and analyze the reasons for such occurrences and identify opportunities for corrective action.	CONCUR. Contract Management Section issues contract expiration notices to divisions four months prior to a contract's end date. Contract Management Section instituted a more aggressive approach in its follow-up efforts with the divisions for contracts expiring June 2005.
		1.7 Amendments were not always established prior to contract expiration. Specifically, of 287 amendments reviewed, 43 percent were established after the contracts expired.	CONCUR. Contract Management Section issues contract expiration notices to divisions four months prior to a contract's end date. Contract Management Section instituted a more aggressive approach in its follow-up efforts with the divisions for contracts expiring June 2005.
		1.8 We recommend Operations Support Services work to limit WeBuy users to one role. If this is not realistically feasible due to program needs, Operations Support Services should develop a monitoring system to ensure these users do not use their multiple roles to circumvent purchasing controls.	COMPLETE. Operations Support Services Division has limited WeBuy users to one role.
		1.9 Operations Support Services should remove buyers' ability to modify and approve vendors within PeopleSoft.	IN PROGRESS. Operations Support Services has updated buyer profiles and removed their ability to approve vendors. However, the PeopleSoft Purchase Order module lead has the technical ability to create and modify purchase orders and approve vendors.
		1.10 Operations Support Services should periodically provide requestors with instructions on how to properly process requests and remind them of the importance of using the accurate account codes.	COMPLETE. Operations Support Services Division periodically provides WeBuy users with broadcast email to informing users of new or changing practices and to provide reminder information.

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Review of Contracting and Purchasing Activities (08/11/05) *(continued)*	Operations Support Services	1.11 Operations Support Services should develop periodic monitoring mechanisms to detect occurrences in which procedures are not followed, identify the timeliness of processing, and strengthen their policies and procedures to require buyers to ensure a WeBuy requisition is completed prior to creating a purchase order.	IN PROGRESS. Operations Support Services has amended procedures to clearly indicate that WeBuy requisitions must complete prior to creating a Purchase Order within PeopleSoft. Operations Support Services will continue to develop periodic monitoring mechanisms.
		1.12 Operations Support Services should formalize the practice of allowing training purchase orders without a WeBuy requisition.	IN PROGRESS. Operations Support Services has developed preliminary procedures and a query to capture data for monitoring training purchases made by Human Resources.
		1.13 Operations Support Services should work to develop a formalized process that ensures software maintenance purchases are taxed at the appropriate rate and that they are recorded appropriately within the purchasing system	COMPLETE. Operations Support Services has developed and implemented procedures for to ensure that software maintenance purchases are taxed at the appropriate rate and that they are recorded appropriately within the purchasing system.
		1.14 Operations Support Services should strengthen its procedures and capabilities to review, detect, and prevent inappropriate splitting of purchases.	IN PROGRESS. Operations Support Services has developed preliminary procedures and a query to capture data for splitting of purchases.
		1.15 Most management positions identified within the Delegation of Authority for contracting activities are no longer employed by CalPERS or are no longer functioning in the capacity identified.	CONCUR. Procedures have been updated to ensure the delegation of authority file is properly maintained and kept current as change over in personnel occurs.

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Transfer of Medicare Eligible Members into Medicare Plans (08/15/05)	Office of Employer and Member Health Services	1.1 Employer and Member Health Services should develop and finalize procedures for identifying and contacting Medicare eligible members, and processing Medicare eligibility correspondence. 1.2 Employer and Member Health Services should develop a process to notify members when COMET is unable to produce the automated notification.	CONCUR. Employer and Member Health Services will continue to finalize procedures for Medicare processes. CONCUR. Employer and Member Health Services will periodically request Information Technology Services Branch to generate ad hoc reports to identify and notify members omitted from COMET automated processes.
Lincoln Plaza Building Manager Fiscal Accountability Review (09/06/05)	Operations Support Services	1.1 Operations Support Services should require that the building manager establish and maintain procedures, guidelines or instructions for approving vendor payments and employee reimbursements. 1.2 Operations Support Services should communicate to the property manager's senior management regarding the control deficiencies identified in the cash disbursement process and follow up to ensure that controls are improved to safeguard CalPERS' funds. 1.3 Operations Support Services should require that the building manager establish and maintain procedures for handling petty cash funds. 3. Operations Support Services should communicate to the property manager's senior management regarding the identified cash receipt control deficiencies and follow up to ensure that controls are improved.	CONCUR. Most of the recommendations have been implemented. Operations Support Services will continue to work with Building Management to develop and implement the remaining procedures. CONCUR. Operations Support Services will discuss controls to safeguard CalPERS' funds with the property manager. CONCUR. Petty cash handling procedures have been implemented. CONCUR. Procedures for addressing these cash receipt control deficiencies have been implemented. All checks received will be documented. Incoming checks will be logged before they are couriered to Colliers Accounting Center.

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Lincoln Plaza Building Manager Fiscal Accountability Review (09/06/05) *(continued)*	Operations Support Services	4. Operations Support Services should communicate in writing to the property manager's senior management regarding control deficiencies identified regarding bank reconciliations and follow up to ensure that controls are improved to safeguard CalPERS' fund.	CONCUR. Statements are retrieved online, reconciled and reviewed within 30 days. In addition, transfers are now being done online.
Review of Internal Controls SAM 20060 Financial Integrity and State Manager's Accountability (9/30/05)	Information Security Office	1.1 Information Security Office should complete its development of a comprehensive risk analysis program promptly.	CONCUR. Information Security Office expects to have the risk analysis program completed by the end of the 2005 calendar year.
	Innovation Services	1.2 We reviewed the Enterprise Project Management Framework and were unable to identify explicit guidelines that require systems to undergo the certification and accreditation process. Innovation Services Division should incorporate into the system development process explicit guidelines for security certification and processing controls considerations.	CONCUR. Management will implement the necessary practices in order to comply.
	Information Security Office	1.3 Information Security Office does not always ensure that the Risk Management Certification is submitted on time. Information Security Office should develop a plan to ensure that the certification is signed by the appropriate individual, and submitted to the Department of Finance by the due date of January 31st annually.	CONCUR. Information Security Office will develop procedures to ensure that Risk Management Certification, and the Department Designation Letter, is signed and sent to the Department of Finance by January 31st annually.

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Review of Internal Controls SAM 20060 Financial Integrity and State Manager's Accountability (9/30/05) *(continued)*	Information Technology Services	1.4 In 2004, CalPERS did not submit an Agency Information Management Annual Certification. Information Technology Services Branch should ensure that the Agency Information Management Strategy Annual Certification is submitted to the Department of Finance by August of every year in which an updated plan is not submitted.	CONCUR. CalPERS' Strategic Information Systems Plan is currently under development and will be sent to the Department of Finance when completed in August 2005.
	Technology Services and Support	1.5 Technology Services and Support does not always maintain documentation indicating that the unit/division representative has tested and accepted the newly purchased software. Technology Services and Support management should instruct staff to obtain the formal acceptance in writing, and file it with all other documentation regarding the software.	CONCUR. Technology Services and Support will have desktop functions implement the recommended process to have user/division representatives test and sign off on all newly purchase software accessible via desktops prior to deployment into production.
	Fiscal Services	2.1 The Contingency Reserve Fund budget appropriations are only partially loaded into PeopleSoft. Fiscal Services should develop and utilize mechanisms within the accounting system so that the full Contingency Reserve Fund budget is readily identifiable at any point in time throughout the fiscal year.	CONCUR. Budget Management Section staff will explore the feasibility of developing and utilizing mechanisms within the accounting system so that the full Contingency Reserve Fund budget is readily identifiable at any point in time throughout the fiscal year.
		2.2 Fiscal Services does not regularly match expenditures to appropriations or budget change proposals. Fiscal Services should develop and utilize mechanisms within the accounting system so that expenditures can be matched to appropriations and budget change proposals.	CONCUR. Fiscal Services established a separate reporting/accounting code for the HIPAA portion of the Contingency Reserve Fund for Fiscal Year 2005-06. This will insure funds are expended only for intended purposes.
	Operations Support Services	3.1 The Document Distribution Center does not always keep its safe locked during the day.	CONCUR. The safe will be locked at all times.

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Review of Internal Controls SAM 20060 Financial Integrity and State Manager's Accountability (9/30/05) *(continued)*	Operations Support Services / Fiscal Services	3.2 Document Distribution Center and Fiscal Services should maintain a list of those who have access to safes and when changes to the combinations have occurred.	CONCUR. In addition to the list of names of employees with access to the combinations, the Document Distribution Center will record when changes to the combinations have occurred. Fiscal Services maintains a list of who has access to the safe and when the changes to the combinations have occurred.
	Operations Support Services	3.3 The Document Distribution Center does not include date received or date transferred on its prelisting of checks.	CONCUR. Currently, the Document Distribution Center lists the date of when the checks are received. Columns for the date transferred and for the recipient's signature in Fiscal Services will be added.
	Fiscal Services	3.4 Fiscal Services does not always promptly identify the disposition of items in the uncleared collections account. Specifically, an item identified as "investment accounting" in the amount of $151,932.05 has been carried in the Uncleared account since December 15, 1997.	CONCUR. Fiscal Services will investigate and work with Benefit Services, Member Services, and Investment Accounting to clear the long outstanding items held in the uncleared collections account.
		3.5 Fiscal Services does not always provide adequate description and documentation for adjusting journal entries for cash receipts. Further, managerial review was not always evident.	CONCUR. Fiscal Services will implement a review process for adjustment and correction journal entries. The journal entries will be reviewed and approved by a unit supervisor. The supervisor will ensure supporting documentation is present.
	Operations Support Services	3.6 Operations Support Services does not always obtain an approval signature from an approving official on a cardholder's bank statement for Cal-Card purchases. Operations Support Services should ensure that staff is made aware of requirements relating to the approval process of cardholder purchases as indicated in the written policies and procedures.	CONCUR. Operations Support Services will ensure staff complies with procedures to eliminate incidents identified.

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Review of Internal Controls SAM 20060 Financial Integrity and State Manager's Accountability (9/30/05) *(continued)*	Fiscal Services	5.1 Fiscal Services does not always give Administrative Revolving Fund checks to the manager for distribution. Sometimes the checks are returned to the check preparer for distribution.	CONCUR. Fiscal Services staff will be reminded of the Administrative Revolving Fund check distribution policy. The Administrative Accounting Unit will provide distribution instructions with the check request report. The reminder will be made in writing to staff in both units and a copy provided to the Office of Audit Services.
	Benefit Services	5.2 Benefit Services Division does not always maintain on file a complete list of staff who are authorized to approve the benefit payments.	CONCUR. Benefit Services added a procedure to 1) periodically provide a comparison list to Human Resources at least semi-annually; plus, 2) Request a comparison each time there is an addition or deletion of a signature authority for any reason.
	Human Resources Services	5.3 Human Resources Services does not always keep the authorized signature file and the State Controller's Office records current. Human Resources should ensure that signature cards received from Fiscal Services are forwarded to the State Controller's Office and that CalPERS' file is kept updated.	CONCUR. Human Resources will finalize the existing draft procedures for the regular updating of the list of persons authorized to sign personnel/payroll documents. The procedures will include a requirement to update the State Controller's Office records regarding authorized signers.
	Fiscal Services	5.4 Fiscal Services did not always request transfers of financial adjustments on a timely basis to ensure proper fund accounting.	CONCUR. Fiscal Services has consistently requested transfers of financial adjustments on a monthly basis since October 2004. Fiscal Services will continue to process transfers of financial adjustments in a timely manner.
		5.5 Fiscal Services does not always use the automated accounting system's built-in separation of duties capabilities. Fiscal Services should periodically review staff access and use the automated accounting system's built-in separation of duties capabilities.	CONCUR. Fiscal Services will use the PeopleSoft functions to restrict accounts payable vendor approval and accounts payable access in accordance with SAM 8080.1.

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		5.7 Fiscal Services does not always verify invoices for mathematical accuracy if paid by claim schedule.	CONCUR. Fiscal Services does not manually verify all invoices for mathematical accuracy. Fiscal Services processes both purchase order and standard invoices. These invoices are compared to the purchase order information in the PeopleSoft Financial System.
		6.1 Fiscal Services does not follow up promptly on outstanding travel advances. Specifically, it issues a second and third notice to employees prior to collection action. Fiscal Services should deduct outstanding travel advances from an employee's next pay check, if not repaid within 30 days of the periodic statement date.	CONCUR. Fiscal Services will modify the current travel advance collection procedures to align with SAM. Fiscal Services generally follows up promptly on outstanding travel advances. Only when 3rd notices are sent to employees do the current collection procedures exceed SAM guidelines.
		6.2 Fiscal Services does not reconcile the Benefit Revolving Fund promptly. We noted that as of our testing in April 2005, the most recent reconciliation completed was for October 2004.	CONCUR. Fiscal Services will prepare reconciliations within 30 days of the preceding month and will follow up with staff to ensure reconciliations are prepared in a timely manner.
		6.3 Errors that are identified as reconciling items on the reconciliations that require correcting entries are not resolved timely.	CONCUR. Fiscal Services will continue to work with Benefit Services to identify and resolve the remaining six reconciling items.
		6.4 Fiscal Services has not submitted a report of office revolving fund deficiency claims.	CONCUR. Fiscal Services has submitted the report of office revolving fund deficiency claims and copies have been provided to the Office of Audit Services.

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Review of Internal Controls SAM 20060 Financial Integrity and State Manager's Accountability (9/30/05) *(continued)*	Human Resources	6.5 Human Resources does not always keep the list of employees authorized to pick up warrants from the State Controller's Office updated. Human Resources should work with the Executive Office to update the list of staff approved to pick up warrants from the State Controller's Office.	CONCUR. To safeguard against unauthorized access to payroll warrants in the future, Human Resources will institute a practice of regular updating of this information, develop a procedure to update the information, and communicate this practice to all necessary parties.
	Fiscal Services	6.6 Fiscal Services does not always keep the list of employees authorized to pick up warrants from Fiscal Services or the mailroom updated. Fiscal Services should update the list of division designees. Regional offices should designate a non-managerial employee to receive the mailed warrants.	CONCUR. Fiscal Services will obtain an updated list of employees authorized to pick up warrants from Fiscal Services or the mailroom. Fiscal Services will also obtain an updated list of regional office employees (non-managerial) authorized to receive mailed warrants.
	Fiscal Services/ Operations Support Services	6.7 We noted two individuals who are not on the approved division designee list picked up September 2004 warrants from Fiscal Services.	CONCUR. Fiscal Services will remind staff to not release warrants to employees who are not on the list of designated employees, and the Document Distribution Center staff has been instructed to only release the warrants to the authorized staff that are approved by their division and Fiscal Services.
	Operations Support Services	6.8 Operations Support Services does not always lock pay warrants in a file cabinet until sorted or distributed to employees. We observed a messenger put the warrants in a filing cabinet in the mailroom, noting that the messenger did not lock the cabinet. The mailroom supervisor locked the cabinet at the end of the day.	CONCUR. The Document Distribution Center staff has been instructed to keep the binder containing warrants locked in a cabinet at all times. Further, whenever designated division staff arrives to pick up their warrants, Document Distribution Center staff will ensure the cabinet is relocked to safeguard any remaining warrants.
	Fiscal Services	6.9 Fiscal Services did not keep copies of all Payroll Warrant Release forms sent to regional offices and does not monitor for their signature and return.	CONCUR. Fiscal Services will keep copies of Payroll Warrant Release forms (ACC-1576) sent to regional offices and monitor their return acknowledging receipt of warrants. Fiscal Services will update payroll release procedures and forward a copy to the Office of Audit Services.

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Review of Internal Controls SAM 20060 Financial Integrity and State Manager's Accountability (9/30/05) *(continued)*	Human Resources	6.10 Human Resources does not always keep all necessary forms documenting payroll transactions.	CONCUR. Human Resources will establish policies and procedures regarding the filing of Notice of Personnel Action forms, as well as the timely submission of timesheets from employees and subsequent filing of timesheets into the personnel files. Human Resources will communicate the policy to staff.
		6.11 Human Resources does not always verify that employees did not record hours worked prior to an official appointment and that leave credits are available prior to their use.	CONCUR. To ensure state policies and procedures regarding employee leave are followed and attendance is properly certified, Human Resources will update attendance and leave policies and communicate the accessibility of the policies to all employees.
		6.12 Human Resources does not always use the correct data to calculate final payroll warrants.	CONCUR. Human Resources will establish procedures regarding the review of staff calculations for all instances when an employee is separating from CalPERS.
		6.13 Human Resources does not always use the lump-sum worksheet to calculate unused or accumulated vacation, annual leave and overtime pay owed to separated employees.	CONCUR. Human Resources will establish a policy and procedure regarding the mandatory use of lump-sum worksheets, by personnel specialists. The policy will include the requirement to review staff calculations and the filing of these worksheets in the employee's personnel file.
		6.14 One Personnel Transaction Specialist in Human Resources inputs all personnel and payroll information for Human Resources staff, including her own, into the payroll systems as well as CalPERS Human Resource Management System. Any Personnel Transaction Specialist can access and adjust their own payroll information.	CONCUR. Human Resources will continue to monitor personnel specialist pay and leave balances. The personnel transactions supervisor will monitor personnel specialist balances by reviewing all personnel, payroll and leave accounting systems every month.

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		6.16 Human Resources does not always retain employee check-out lists. Specifically, separation checklists were not found for 6 of 10 separations sampled. An exit clearance form was not found for 1 of the 10 separations sampled. One of the 9 forms found did not have a signature from a Fiscal Services representative.	CONCUR. Human Resources will reinforce the policy and procedures regarding the mandatory use and maintenance of exit clearance forms and separation checklists and will communicate the requirements to all staff.
		6.17 Human Resources does not always maintain a current list of authorized signers and does not always update the State Controller's Office regarding changes.	CONCUR. Human Resources will finalize the existing draft procedures for the regular updating of the list of persons authorized to sign personnel/payroll documents and review the eligibility of authorized signers on a semi-annual basis.
	Fiscal Services	6.18 Fiscal Services does not consistently use the full cost to record the fixed assets and associated depreciation. The amounts recorded by PeopleSoft Asset Management were different from amounts used by Fiscal Services to record asset cost and depreciation through the PeopleSoft Financial System.	CONCUR. Fiscal Services will develop procedures and reconciliation methods to ensure the PeopleSoft Financial System General Ledger module and the Asset Management module are consistent and properly recorded to reflect total cost of acquired assets.
	Operations Support Services	6.19 Operations Support Services does not consistently tag assets and not all tagged assets could be found.	CONCUR. The property controller will follow up with the divisions to ensure that all assigned assets are properly tagged.
		6.20 Several sampled assets, specifically computer equipment, were accounted for by the division using a different inventory methodology that was not consistent with the system used by the property controller.	CONCUR. The property controller will ensure that the records maintained by divisions are consistent with the property controller's records.

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		6.22 Various divisions do not always complete and return the inventory listings to Operations Support Services.	CONCUR. The property controller will follow up with the divisions by periodically providing them with the updated information listings.
		6.23 Operations Support Services does not follow up with non-compliant divisions. During the last inventory, 9 out of the 96 inventory locations did not complete and return the inventory worksheets to the property controller when requested.	CONCUR. The property controller will follow up with the non-compliant divisions in a timely manner.
		6.24 Operations Support Services manuals are out of date and are not consistent with current fixed asset practices.	CONCUR. The property controller will have the current procedures available to all division on-line for reference. The property controller will inform the property custodians where this information can be found.
		6.25 Operations Support Services does not always ensure that a determination was made regarding negligence in cases of lost, stolen, and destroyed property.	CONCUR. The property controller will have the current procedures available to all divisions on-line for reference. The property controller will inform the property custodians where this information can be found.
		6.26 Operations Support Services' procedures to monitor sensitive items are not adequate to ensure that items susceptible to theft or loss will be discovered in a timely manner.	CONCUR. The property controller will provide information to the property custodians regarding the procedures on how to report lost, stolen or missing assets.

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Review of Internal Controls SAM 20060 Financial Integrity and State Manager's Accountability (9/30/05) *(continued)*	Fiscal Services	7.1 Fiscal Services does not prepare a complete set of quarterly reports (i.e. trial balance, budget report, and reconciliation of Controller's accounts with budget report) for all funds. 7.2 Fiscal Services does not have adequate accounting procedures for preparation of financial reports. Procedures primarily take the form of memos, email messages and notes.	CONCUR. Fiscal Services currently prepares a monthly budget report and a monthly reconciliation of Controller's accounts to the budget report. Fiscal Services will also retain a quarterly trial balance in the event that it is requested by the Department of Finance. CONCUR. Fiscal Services will continue to prepare written procedures on the preparation of financial reports.
Review of the Risk Managed Absolute Return Strategies Program (10/07/05)	Investment Office	2. Our evaluation found the Program uses a disciplined consistent approach to conduct a deep assessment of prospective managers. We recommend establishment of written processes or checklists for fund selection and allow for oversight and review of the program's activities	CONCUR. The investment office is currently working on establishing checklists that will assist in tracking each of the processes to ensure consistent application of the various stages associated with fund selection, due diligence, and risk measurement.
PeopleSoft Review (10/26/05)	Fiscal Services/ Operations Support Services	1.1 Fiscal Services and Operations Support Services should ensure that functional configuration documents include a change control summary listing the date, author, and content of changes. 1.2 Fiscal Services and Operations Support Services should validate and complete current application security configuration documents.	CONCUR. Fiscal Services and Operations Support Services will ensure that functional configuration documents include the date and author. CONCUR. Application security configuration documents will be validated.
	Fiscal Services	1.3 Fiscal Services should ensure that PeopleSoft training provided to the system support staff is also provided to the manager overseeing the function.	CONCUR. Fiscal Services will ensure that certain PeopleSoft training provided to the system support staff is also provided to the manager.

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PeopleSoft Review (10/26/05) *(continued)*	Fiscal Services	2.1 Written procedures are not complete regarding setting up users' access and maintaining the access authorization documents. Fiscal Services should complete the written procedures for setting up users' access and maintaining the access authorization documents.	CONCUR. Fiscal Services will complete the written procedures for setting up users' access and maintaining the access authorization documents.
		2.2 We noted that requests to access production server operating system and database do not require data owners' approval. Fiscal Services should request the Innovation Services Division to revise current access request process to require owners' approval.	CONCUR. Fiscal Services will request Innovation to revise the current access request process to require owners' approval when access to production server or database is requested. Operations Support Services will be informed when the request is made.
	Technology Services and Support	2.3 System administrators cannot identify who makes the changes to the application components if a user logs on to the system using one of the shared identifications. Technology Services and Support should consider placing system controls to disallow users from directly logging on to the system using a shared identification.	CONCUR. Technology Services and Support modified the existing variance and received approval via a new variance for the additional shared accounts. Technology Services and Support staff will log in with their own personal account and switch users to the shared application accounts.
		2.4 We found one database account did not comply with the CalPERS password standards. It did not have a variance approved by the CalPERS Information Security Office as required by the security practices. Technology Services and Support should submit a variance request to the Information Security Office for review and approval.	CONCUR. To facilitate this recommendation, Technology Services and Support worked with the Information Security Office and received an approved variance. Technology Services and Support also locked the specific account.
		2.5 Security administration staff and database administrators have knowledge of a certain database password. Technology Services and Support should have the variance approval revised to include the requirement that this password be changed whenever a staff that is knowledgeable of the password leaves CalPERS.	CONCUR. Technology Support Services modified the existing variance because application development staff no longer needs access to the SYSADM account in PeopleSoft Financials production. Database Administration and the Security Administration will continue to follow the Information Security Practice.

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PeopleSoft Review (10/26/05) *(continued)*	Fiscal Services	2.6 CalPERS information security practices require applications to have inactivity duration of a maximum of 20 minutes. Fiscal Services should instruct users on how to properly configure screensavers and the importance of controlling access to PeopleSoft through their desktop computers.	CONCUR. Fiscal Services will instruct users on how to properly configure screensavers and the importance of controlling access to PeopleSoft through their desktop computers.
	Technology Services and Support	2.7 The operating system of the production server cannot enforce 20 minute session time out. Technology Services and Support should implement compensating controls suggested by the Information Security Office, if any, upon the security variance approval.	CONCUR. Password Variance 06-003 for Unix session timeout outlines compensating controls that are in force at CalPERS.
	Fiscal Services/ Operations Support Services	2.8 Fiscal Services allows all users evening and Saturday access to PeopleSoft even though only some users work overtime. Fiscal Services and Operations Support Services should assess the need for after hour access among user groups.	CONCUR. Fiscal Services will be creating permission lists to limit after hour access for various user groups (i.e., Production Services, Benefit Services, Fiscal Services, Cashier's Unit).
	Fiscal Services/ Operations Support Services/ Technology Services and Support	2.9 Security administrator is the only user authorized to access PeopleSoft remotely. Fiscal Services, Operations Support Services, and Technology Services and Support should work with the Innovation Services Division to ensure that remote access to PeopleSoft is controlled so that only users authorized to remotely access PeopleSoft can do so.	CONCUR. Application Support staff and Security Administration staff have been working on testing this remote access issue. Application Support, Security Administration, Information Security Office, and Enterprise Network Services have been teaming on this effort to find an acceptable solution.
	Technology Services and Support	3.1 Access to the production environment should be limited to the minimal staff required to implement production changes. Technology Services and Support should cross train staff and separate the functions between development and implementation of changes in production.	CONCUR. Technology Services and Support agrees that the amount of staff having access to production should be minimized to only allow staff the ability to successfully support the application, provide backup staff, and meet service level agreement.

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PeopleSoft Review (10/26/05) *(continued)*	Fiscal Services/ Operations Support Services	3.2 Module leads, as system analysts, should work in a non-production environment. Fiscal Services and Operations Support Services should assign production controls and setting up user access functions to other staff to ensure proper segregation of duties.	CONCUR. Each module lead will have access to production only to the extent needed to perform their jobs.
	Fiscal Services	3.3 We found inadequate segregation of security functions. Fiscal Services should request the Innovation Services, Security Administration Unit, to monitor users' activity logs.	CONCUR. Fiscal Services will request the Innovation Services, Security Administration Unit, to monitor users' activity logs.
	Technology Services and Support	4. In January 2005, PeopleSoft was upgraded from version 7.5 to version 8.8. We recommend that Technology Services and Support include the PeopleSoft disaster recovery plan in a functional testing to ensure its recoverability.	CONCUR. PeopleSoft Financials will be included in the next Business Continuity exercise.
	Fiscal Services	5. Sensitive accounting data downloaded or delivered from external business partners for uploading into PeopleSoft are not encrypted. Fiscal Services should work with the external business partners to ensure that sensitive accounting data are properly encrypted during transmission or transportation.	CONCUR. Fiscal Services is working with Gov 1 and State Street Bank to encrypt data.
Review of BlackRock System Compliance (12/2/05)	Investment Office	1.1 We reviewed the process for inputting rules into BlackRock, and found a small number of inconsistencies and some missing documentation. We recommend that the Investment Office formalize a periodic review of portfolio rules and maintain approval documentation supporting all current rules.	CONCUR. The Investment Office has established an archive folder for all requests or approvals. Following an initial review of all portfolios (currently in progress), rules will be reviewed each time a new policy change is submitted to the Board.

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Review of BlackRock System Compliance (12/2/05) *(continued)*	Investment Office	1.2 Separation of duties regarding CalPERS' prohibition to buy or hold tobacco stocks could be strengthened. We recommend maintenance of the restricted tobacco list be moved to the Compliance Office and that the Compliance Office ensure that all portfolios in BlackRock appropriately prohibit buying or holding restricted tobacco stocks.	CONCUR. The Investment Office is in the process of migrating the Tobacco list from hard coding to a dynamic list maintained and monitored in Galileo, with a target of December 2005, and are migrating control of this to the Office of Enterprise Compliance.
		2.1 BlackRock contains a very large number of rules which reflect the provisions of CalPERS' Fixed Income Investment Policies. There are some policy provisions for which there are no rules in BlackRock, and these rules can be modeled. We recommend that the Investment Office add rules for these items to BlackRock.	CONCUR. The Investment Office has added rules for the policy provisions to Aladdin, the BlackRock System.
		2.2 There are some rules in BlackRock which are not the same as the policy provisions. We recommend that the Investment Office modify these rules to conform to policy.	CONCUR. The Investment Office has modified these rules to match the policy provisions in Aladdin, the BlackRock System.
		2.3 There are some rules in BlackRock for which there are not provisions in policies. We recommend that the Investment Office review these rules and take appropriate actions.	CONCUR. The Investment Office has removed the rules which do not match the policy provisions from Aladdin, the BlackRock System.
		3. We found three areas where the BlackRock password requirements do not fulfill CalPERS requirements. The Investment Office should work with both the Information Security Office and BlackRock to ensure that password requirements are brought into alignment with CalPERS requirements.	CONCUR. The Investment Office will work with Information Security Office to determine the appropriate steps in updating BlackRock password policy, or obtain required variances.

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Review of BlackRock System Compliance (12/2/05) *(continued)*	Investment Office	4. There are no formalized procedures for requesting and deactivating accounts. We recommend the Investment Office formalize procedures for requesting new accounts, deactivating accounts and periodic review of user accounts.	CONCUR. Investment Office will formalize procedures for requesting new accounts, deactivating accounts and periodic review of user accounts.
		5. We reviewed active CalPERS users' accounts and found one account that had had remained open for six months after the employee separated prior to the account being closed. We recommend the Investment Office formalize procedures for requesting new accounts, deactivating accounts and periodic review of user accounts.	CONCUR. Investment Office will formalize procedures for requesting new accounts, deactivating accounts and periodic review of user accounts.
		7.1 Our review of CalPERS BlackRock user accounts found an inadequate separation of duties. The Fixed Income Unit should work with BlackRock and the Compliance Office to devise an appropriate manner for handling the overriding of restrictions.	COMPLETE. The separation of duty issue has been resolved by removing Fixed Income staff permissions needed to override restrictions. Overriding of restrictions is conducted by members of the compliance group.
		7.2 The BlackRock system does not prevent an individual from overriding a restriction on their own trade. We recommend that the Investment Office work with BlackRock to create rules so that one person cannot override restrictions on their own trades.	COMPLETE. The separation of duty issue has been resolved by removing Fixed Income staff permissions needed to override restrictions. Overriding of restrictions is conducted by members of the compliance group.
		7.3 Compliance rules utilize restricted trade lists when evaluating trades and portfolios. Our review identified six Fixed Income Staff that have the ability to maintain the restricted trade lists. We recommend improved internal controls to maintain adequate separation of duties.	IN PROGRESS. The compliance group has been granted the permission needed to maintain the Restricted/Tobacco lists; however the separation of duty issues remains as long as Fixed Income staff retain these maintenance permissions.

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Review of BlackRock System Compliance (12/2/05) *(continued)*	Investment Office	7.4 Our review identified seven Operations Unit staff with the ability to turn off trade compliance rules for the purpose of loading bulk trades. We recommend improved internal controls by limiting permission to turn off compliance for bulk trades to specific portfolios.	COMPLETE. Internal controls have been improved by limiting Operation Unit users' effective ability to turn off compliance for bulk trades to the specific portfolios for which they require this capability. This was achieved by constraining those users' trade capabilities to specifically needed portfolios.
		7.5 Staff's current ability to turn off compliance rules is greater than is necessitated by their bulk loading duties. We recommend that the Investment Office continue to work with BlackRock to maximize potential for reducing or eliminating need to turn off compliance rules for bulk trades.	COMPLETE. Staff's current ability to turn off compliance rules is effectively restricted to the specific portfolios for which they require this capability. This was achieved by constraining those users' trade capabilities to specifically needed portfolios.
		7.6 We would expect to see that trading is performed within the Fixed Income Unit and confirmation is performed within the Operations Unit. We recommend improved internal controls to maintain adequate separation of duties.	IN PROGRESS. The number of Fixed Income staff with the ability to trade and confirm trades has been reduced to one user in the Data Integrity Group.
		7.7 Rules may restrict an action (requiring an override to proceed). Effective monitoring of these warnings is required to maintain assurance that trading and confirming activities stay within requirements. We recommend that warning volumes do not create a barrier and rules meet control objectives.	CONCUR. The control rules have been revised and the Investment Office is in the process of coordinating with the Office of Enterprise Compliance on how to best structure monitoring.